

Message Text

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ORIGIN EB-07

INFO OCT-01 EA-06 ISO-00 EUR-12 COME-00 TRSE-00 XMB-02

AID-05 L-02 SP-02 NSC-05 CIEP-01 SS-15 STR-04 OMB-01

CEA-01 CIAE-00 INR-07 NSAE-00 PA-01 USIA-06 PRS-01

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DRAFTED BY EB/OT/TA:MEYER:LV

APPROVED BY EB/OT:WSCHMIDT

EB/OT/TA BREDECKER

EB/OMA:RSWART

EA/J:WPIEZ

EUR/RPE:RHARDING

COMMERCE:CJOHNSON

TREASURY:MCHAVES

EUR/NE:NACHILLES

EX/IM:DAMBACH

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R 112056Z APR 75

FM SECSTATE WASHDC

TO AMEMBASSY TOKYO

INFO ALL OECD CAPITALS

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TAGS:ETRD, EFIN, OECD, JA

SUBJECT: COST OF PRODUCTION INSURANCE

REF: (A) TOKYO 3587, (B) LONDON 2753 (BOTH REFS NOTAL)

1. REFTEL A REPORTS THAT THERE IS PRESSURE BEING PLACED
ON THE GOJ TO INSTITUTE A COST OF PRODUCTION INSURANCE
SCHEME SIMILAR IN PRINCIPLE AND EFFECT TO THAT RECENTLY
PROPOSED BY THE UK GOVERNMENT TO PARLIAMENT (REFTEL B).
GOJ IS RESISTING THIS PRESSURE, USING AS ONE OF THEIR MAJOR
ARGUMENTS THE FACT THAT THE US HAS NO SUCH PLAN AND THERE
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IS THEREFORE NO NEED FOR JAPAN TO INSTITUTE ONE.

2. WE WISH TO ENCOURAGE GOJ RESISTANCE, AND TO THAT END THE EMBASSY IS REQUESTED TO TAKE AN APPROPRIATE OPPORTUNITY TO INFORM THE GOJ THAT WE VIEW THE PROLIFERATION OF THESE "INSURANCE" SCHEMES, WHICH IN THE CURRENT INFLATIONARY ENVIRONMENT ACT AS EXPORT SUBSIDIES, AS A MOST UNFORTUNATE DEVELOPMENT. WE HAVE TAKEN ACTION BILATERALLY, AND AS GOJ AWARE, IN THE OECD AND THE GATT TO EXPRESS OUR CONCERN OVER THE PROLIFERATION OF SUCH MEASURES. WE HAVE ALSO PROPOSED THAT "INFLATION INSURANCE" BE COVERED IN THE GENTLEMEN'S AGREEMENT ON EXPORT CREDITS. GOJ MAY BE SURE THAT WE INTEND TO CONTINUE TO OPPOSE SUCH SCHEMES VIGOROUSLY WHEREVER THEY MIGHT APPEAR AND WOULD WELCOME GOJ SUPPORT. EMBASSY SHOULD FURTHER STRESS THAT THERE IS NO CONSIDERATION BEING GIVEN BY THE UNITED STATES GOVERNMENT TO INSTITUTING INFLATION INSURANCE."

3. INFO ADDRESSEES MAY DRAW ON ABOVE POINTS SHOULD REPRESENTATIVES OF HOST GOVERNMENTS RAISE THE SUBJECT.

4. FOR THE INFORMATION OF INFO ADDRESSEES WHO DID NOT RECEIVE REFTELS: THE PROPOSED UK INSURANCE SCHEME WOULD COMPENSATE EXPORTERS OF "CAPITAL GOODS" UNDER FIXED PRICE CONTRACTS FULFILLING CERTAIN CRITERIA COVERING CONTRACT SIZE, MANUFACTURING TIME, ETC. FOR A PORTION OF INCREASES OF THE COST OF PRODUCTION DUE TO INFLATION. AS CURRENTLY PROPOSED, GENERALLY 85 PERCENT OF COST INCREASES BETWEEN 10 PERCENT AND 20 PERCENT OF THE CONTRACT PRICE WOULD BE COVERED. THE PREMIUM WOULD BE ONE PERCENT OF THE CONTRACT PRICE. UK HAS ADMITTED PAY-OUT MAY EXCEED PREMIUMS COLLECTED BY 50 MILLION POUNDS PER YEAR. MEASURES THEREFORE WILL FUNCTION AS A VARIABLE EXPORT SUBSIDY--THE HIGHER THE INFLATION (UP TO 20 PERCENT) THE HIGHER THE SUBSIDY. IN ADDITION, EXPORTERS HAVING ACCESS TO THE INSURANCE WILL BE ABLE TO UNDERBID THOSE WITHOUT IT, KNOWING THAT A PART OF THEIR INFLATION RISK IS COVERED. THE UK DEFENDS ITS SCHEME BY POINTING TO A SIMILAR FRENCH MEASURE WHICH HAS BEEN IN EFFECT FOR SEVERAL YEARS. UK ARGUE THAT THEY ARE JUST TRYING TO ATTAIN PARITY WITH A MAJOR COMPETITOR FOR LARGE, LONG TERM CAPITAL GOODS CONTRACTS.

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HOWEVER, THE UK PROPOSAL COMES AFTER THEY AGREED TO THE OECD TRADE PLEDGE AND AT A TIME WHEN THE LIKELIHOOD OF PROLIFERATION OF MEASURES WHICH ARTIFICIALLY DISTORT TRADE IS GREATLY INCREASED. AN OECD TRADE COMMITTEE WORKING PARTY HAS EXAMINED THE PROPOSED BRITISH MEASURE, AND RECOMMENDED THAT IT ALONG WITH THE FRENCH MEASURE AND AN ITALIAN "INSURANCE" SCHEME THAT IS CURRENTLY SUSPENDED BE FOLDED INTO A BROAD RANGE OECD EXAMINATION OF INFLATION

INSURANCE IN GENERAL. WE HAVE ALSO RAISED THE PROPOSED
BRITISH MEASURE IN THE GATT, CITING IT AS A POTENTIAL
VIOLATION OF ART. XVI. KISSINGER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INSURANCE, EXPORTS, ANTIINFLATIONARY PROGRAMS
Control Number: n/a
Copy: SINGLE
Draft Date: 11 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: WorrelSW
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975STATE083421
Document Source: CORE
Document Unique ID: 00
Drafter: MEYER:LV
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750129-0022
From: STATE
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750457/aaaacapr.tel
Line Count: 118
Locator: TEXT ON-LINE, ON MICROFILM
Office: ORIGIN EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 75 TOKYO 3587, 75 LONDON 2753
Review Action: RELEASED, APPROVED
Review Authority: WorrelSW
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUN 2003 by ShawDG>; APPROVED <06 NOV 2003 by WorrelSW>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: COST OF PRODUCTION INSURANCE
TAGS: ETRD, EFIN, JA, OECD
To: TOKYO
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006